

**California Debt and Investment  
Advisory Commission  
Fundamentals of Land Secured Financing**

*Session I*

*Basic Structures of Assessment and  
Community Facilities Districts*

**California Debt and Investment  
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*Session II*

*Pre-Formation Considerations*

# Local Goals and Policies

- Legal Requirement for CFD's  
(Gov't code §53312.7)
- Good Idea for AD's
- Why important - to provide:
  - Guidance
  - Consistency
  - Assurances

# Key Issues to Cover in Policies

- Facilities Priority & Eligibility
- Disclosure to:
  - Prospective Property Purchasers
  - Bond Buyers
  - Financial Markets
- Appraisal Criteria/Value-to-Lien
- Application Process
- Credit Quality Requirements/Criteria

# ACQUISITION vs. CONSTRUCTION

- ACQUISITION: Developer builds improvements and sells them
- CONSTRUCTION: Public Agency builds
- Completed Facility vs. Progress Payments
- Vertical vs. Horizontal



# Selecting the Team

- Public Agency should choose consultants
- Financial Advisor can help
- RFP Process / Consultant Pool
- Mello-Roos / Assessment District  
Experience is a key



# Important Considerations

- Communication among members
- Facilitation of meetings
- Involve Counsel - legal protection
- Understand structure and associated workload - you will have to live with these decisions



# Other Agencies/Utilities Coordination

- Jurisdictional overlap
- Who will own and operate facilities?
- Joint Community Facilities Agreements required for CFD's
- Consent of legislative body required for CFD's and AD's





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***Session III***

***District Formation Process***

# FORMATION PROCESS

- LET'S GET MARRIED
  - *Petition*
- I'LL THINK ABOUT IT
  - *Resolution of Intention*
  - *CFD Rate & Method of Apportionment*
  - *AD Engineer's Report (including assessment spread)*
- LET'S TALK ABOUT IT
  - *Public Hearing*
  - *AD Ballot Tabulation*
- THE WEDDING DAY
  - *Resolution of Formation*
  - *CFD Election*



# Rate and Method of Apportionment

- Approved by public agency at ROF and by 2/3 vote of qualified electors
- Describes methodology used to calculate the annual special tax levy

# Rate and Method of Apportionment

- Special Tax Requirement
  - Interest and principal on bonds
  - Authorized facilities (pay-as-you-go)
  - Authorized services
  - Replenish reserve fund
  - Administrative expenses

# Objectives in Designing Special Tax Formulas:

## Developed Property Special Tax

- Applies to parcels after issuance of building permit, recordation of map, or other defined event
- Can be spread based on benefit or market considerations, not property value (must be “reasonable”)
- Categories based on: land use, size of home, type of home, lot size

# Objectives in Designing Special Tax Formulas:

## Developed Property Special Tax

- Must provide 110% gross debt service coverage at buildout
- Maximum tax must take into account marketing and public policy limitations; generally 2.0% of property value
- Should be stable and generally unaffected by development risk

# Objectives in Designing Special Tax Formulas:

## Undeveloped Property Special Tax

- Applies to parcels that do not yet meet definition of “Developed Property”
- Typically charged on a per-acre basis
- Ensures a minimum of 110% gross debt service coverage before buildout
- Must provide coverage under worst-case scenario
- Should absorb variability in special tax levy

# Objectives in Designing Special Tax Formulas:

## Additional Items to Consider

- Rate of Escalation (2% or level)
- Order of Levy
- Backup Special Tax
- Cross-Collateralization
- Prepayment Formula
- Maintenance Special Tax



# Engineer's Report

## S&H Code §10204 (1913 Act)

- Plans & Specifications
- Estimate of Costs
- Assessment Diagram
- Assessment Methodology
- Assessment Roll
- Annual Administration Costs

# Engineer's Report

## S&H Code §2960 (1931 Debt Limitation Act)

- Total principal amount of Unpaid Assessments on parcels
- Total true value of parcels
- Total Lien / Value  
(must be less than 50% by code)

# Engineer's Report

- Key information document in a dispute
- Prepared by a Registered Prof. Engineer
- Proposition 218 requirements
  - Special Benefit should be clearly defined
  - General Benefit should be discussed
  - Assessment spread clearly detailed
  - Special treatment of public parcels should be discussed

# CFD Special Election Process

- Conducted after Reso. of Formation
- This IS an election under the Elections Code
- Weighted by property area  
(if fewer than 12 registered voters)
- 2/3 must vote “yes”  
(registered voters or area)

# Assessment Ballot Process

- Required by Proposition 218
- Mailed with Notice of Public Hearing
- This is **NOT** an election,  
**NOT** a secret ballot
- Ballots opened and tallied after hearing
- Weighted by assessment amount
- More “no” than “yes”, no assessment

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*Session IV*

*Project Implementation*

# Acquisition or Construction ?

## ● Acquisition Project:

- Developer/Owner constructs improvements (must front the costs)
- Issuer to “purchase” (acquire) with bond proceeds
- Acquisition Agreement specifies how (construction and purchase processes)

## ● Construction Project:

- Issuer constructs project
- Bond proceeds pay costs as needed



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*Session V*

*Bond Issuance*



# Consultant Roles

**Market Consultant**

**Absorption Study**

**Fiscal Agent**

**Debt Service Payments  
and Investments**

**Assessment Engineer**

**Benefit Finding and  
Engineer's Report**



# Consultant Roles

**Underwriter**

**Deal Structure and Sale**

**Disclosure Counsel**

**Prepares Offering  
Documents**

**Initial and Continuing  
Disclosure**

**Appraiser**

**Determines Value**



# Consultant Roles

**Bond Counsel**

**Legal Opinion**

**Financial Advisor**

**Guidance & Market  
Knowledge**

**Special Tax  
Consultant**

**Tax Formula &  
Financing Plan**



# Bond Issuance

- LET'S HAVE A BABY!
- CAN WE AFFORD IT?
  - *Financial Feasibility*
  - *Appraisal - 3:1*
- HOW DO WE DO IT?
  - *Resolution of Issuance*
  - *Bond Indenture*
  - *Preliminary Official Statement (POS)*
  - *Purchase Agreement*
  - *Continuing Disclosure Agreement(s)*



# BOND DISCLOSURE

- LET'S TELL OUR FRIENDS
  - *Preliminary Official Statement*
  - *Tell the truth, the whole truth and nothing but the truth*
- WHAT DO WE SAY
  - *Disclose all facts important to investor*
  - *Bond terms*
  - *Appraisal*
  - *Developer's Financing Plan*
  - *Special Tax Formula / Assessment Spread*
  - *Land use entitlements / Risks*
  - *Real estate market risks*



# Topics of Discussion

- Analysis of Direct and Overlapping Debt
- Special Tax Coverage
- Tax Delinquencies
- Undeveloped and Developed Land Values

# Topics of Discussion

- Additional Security
- Bond Covenants
- Multiple Series/Escrow  
Releases/Refundings
- Developer Capability

# Sharing of Taxing Capacity - CFDs

- Total taxes not to exceed 2% of value
- 1% is for ad valorem property taxes
- Value-to-lien constraint
- Make sure all public agencies are brought to the table





# Timing of Bond Issues

- Phasing of Facility Construction
- Phased Bond Issues
- Value-to-lien considerations
- Election Timing



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*Session VI*

*Administration of Liens and Bonds*

# Administration

## Basic Steps

- Know your CFD / AD
- Be active prior to issuance
- Manage the funds
- Meet administrative obligation
- Customer service



# Preparing CFD / AD Levy

- Know your tax formula / assessment spread
- Update parcels & “development status”
- Allocate parcels to tax categories (CFD)
- Determine special tax requirement (CFD)
- Assessment Apportionments (AD)
- Determine debt service & admin costs (AD)
- Submit to Auditor’s office



# Delinquency Management

- Accelerated judicial foreclosure
- The delinquency process
  - Strip special tax / assessment levy off roll
  - Notice to delinquent owners
- Foreclosure Counsel
- Thresholds



# Continuing Disclosure

- SEC Rule 15c2-12
- Obligated Persons - Issuer & Developer
- What to disclose
  - Material events
  - Items in Continuing Disclosure Certificate
- Disclosure Counsel relationship
- Information Repositories - NRMSIRs
- Reports must be filed on time!



# Annual Special Tax Report - CFD

- Summary of development
- Summary of account balances
- Status of improvements
- Summary of financial obligations
- List of parcels and levy
- CDIAC requirements



# Other Administrative Items

- Arbitrage rebate calculation
- Reconcile bank statements
- Disbursing/Investing Bond Proceeds
- Prepayment calculations
- Record release of special tax / assessment lien
- Reimbursement for facility construction
- Changes of ownership in the bonds





# Consultants or Staff

- Staff's experience
- Evaluation of workloads
- Number of districts
- Complexity of districts
- Combined approach

